Kerr Addison Mines Limited

Annual Report 1973

Kerr Addison Mines Limited

Directors

Allan Findlay, Q.C., Toronto, Ont.
William James, Toronto, Ont.
D. G. Neelands, Toronto, Ont.
J. P. W. Ostiguy, Montreal, Que.
R. V. Porritt, Toronto, Ont.
W. H. Rea, Toronto, Ont.
W. S. Row, Toronto, Ont.
D. E. G. Schmitt, Toronto, Ont.
W. Dent Smith, Wilmington, Del.

Officers

W. S. Row, Chairman of the Board
William James, President
M. D. Rowswell, Vice-President & General Manager
G. M. Hogg, Vice-President — Exploration
R. D. Stewart, Secretary
I. D. Bayer, Treasurer

Head Office and Exploration Office

P.O. Box 91, Commerce Court West,
Toronto, Ont.

Annual Meeting

Friday, April 19, 1974
12:00 Noon at the Canadian Court,
King Edward Sheraton Hotel,
Toronto, Ont.

Transfer Agents and Registrars

Canada Permanent Trust Company,
20 Eglinton Avenue West, Toronto, Ont.

Registrar & Transfer Company,
140 Cedar Street, New York, N.Y.

Registrar & Transfer Company,
34 Exchange Place, Jersey City 2, N.J.

Auditors

Clarkson, Gordon & Co., P.O. Box 251,
Toronto-Dominion Centre, Toronto, Ont.

Operating Personnel Including Subsidiary Companies

The Kerr Addison Mine
W. G. Hargrave, Manager
S. R. Fredeen, General Superintendent
and Chief Mining Engineer

The Normetal Mine
R. J. Allen, Manager
H. T. Blake, Mine Superintendent

Joutel Copper Mines Limited
D. B. Campbell, Manager
W. D. Ogilvie, Acting Manager

Blue Hill Joint Venture
P. A. Matthews, Manager

Directors' Report to the Shareholders

TO THE SHAREHOLDERS:

The substantial rise in the price of gold was the main factor in the increase of earnings to $9.9 million or $1.04 per share in 1973 from $5.9 million or 62 cents per share in 1972. Higher prices for zinc and copper also contributed to the gain and permitted continuing operations at the Joutel and Normetal Mines. Investment income for the year increased to $3.9 million compared to $3.0 million in 1972. Dividends of 60 cents per share were declared during the year. At the year-end the net value of current assets and investments at market value was $122 million or $12.74 per share. The most significant holding was 1.6 million shares of Noranda Mines Limited, which had a market value at December 31, 1973 of $80.4 million.

The Free Market gold price fluctuated widely throughout the year increasing from $65.00 per ounce in January to a peak of $127.00 in July and was $112.00 at the year-end, reflecting unsettled world monetary conditions which became even more chaotic as a result of the Middle East war and subsequent energy shortages.

The Kerr Addison mine is one of the larger gold mines in Canada with production amounting to 127,650 ounces in 1973. The average price for gold produced during the year was $102.37 per ounce. At current gold prices, some lower grade material not previously classified as ore is now profitable and is included in the ore reserves. Thus, the amount of gold remaining in the mineable reserves at year-end, 723,000 ounces, was only decreased by about 20,000 ounces from the previous year. Additional potential reserves within the mine area are being evaluated. At present, there are openings for 60 miners at Kerr Addison. This shortage of men is the only factor limiting production to the current rate.

The unusually large increase in zinc consumption of 10% in 1973 outpaced supplies which were up only 3½%. The average price increased from about 19 cents in January to approximately 31 cents at year-end.

Copper was in short supply throughout 1973. Prices rose to record levels on the London Metal Exchange fluctuating from a low of 48 cents in January to $1.20 in December and easing to 91.5 cents at the year-end. In Canada prices increased from 54 cents in January to 74 cents in October.

The benefit of increased metal prices was partially offset by higher rates charged by the smelters, refineries, reduction plants and carriers.

The Normetal mine was expected to terminate operations in the third quarter of 1973. However, with the increase in zinc and copper prices and the persistence of the operators in finding additional small pods of ore, it is likely that this mine will continue production until the end of the second quarter of this year at decreased earnings.

The Blue Hill mine in Maine, 60% owned by Kerramerican, Inc., completed its first full year of operations. The orebody is a difficult one to mine and the designed production of 1,000 tons per day has not been attained over a seven-day-per-week basis. The mill is presently operating five days per week at about 935 tons per day. Development of the Mammoth copper zone began in November and will result in increased production of copper concentrates.

Some of the ore indicated by surface diamond drilling on the main zone of the Blue Hill orebody was found to be discontinuous when developed underground and has been deleted from the ore reserves. The reserves have been further decreased this year because they are now stated as "mineable" reserves rather than as the total "in place" reserves previously listed.

Surface diamond drilling has indicated the existence of significant zinc mineralization down dip and further drilling will be done in this area.

The Joutel mine, 63% owned by Kerr Addison, is now primarily a zinc producer. This operation has also benefited from higher metal prices resulting in low grade, zinc-bearing material being classified as ore. If prices are maintained and costs held in line, it is probable that operations will continue throughout 1974 at reduced profit.

The Company's 9.8% interest in Canadian Electrolytic Zinc is becoming a more important asset with the improvement in the economics of reduction of zinc concentrates to metal. Construction of the 50% expansion in the plant capacity is on schedule for start-up in mid-1975, but the capital cost will be substantially higher than the original estimate.

Major exploration efforts were concentrated in Canada and the United States during 1973 with particular emphasis on gold. Evaluations were made on many gold prospects both in Canada and the United States, but to date no new ore has been found on these properties.

Uranium exploration has been emphasized in the United States with the resumption of drilling in the Fernandez Joint Venture area, New Mexico, in partnership with Noranda Exploration Inc. and Gulf Minerals. Investigations were also carried out in southwestern Texas with negative results.

The Company has an agreement to transfer its interest in the major part of its uranium reserves in the Fernandez Joint Venture to another party for a royalty with an initial advance royalty payment. Certain conditions are unresolved so that the amount of the advance royalty payment is not determinable at this date. The maximum net gain on the advance royalty is $3.0 million, but it has not been included in the 1973 statement of operations.

With nuclear reactors playing an increasingly important role in planning future power requirements, it is anticipated that the price of uranium will increase. Accordingly, studies have been initiated on the Company's 80% owned Agnew Lake uranium deposit to determine the lowest cost method of extracting U_3O_8 from this reserve.

While the availability of uranium continues to exceed current consumption, anticipated future demand commencing about 1978 firmed current prices from $6.25 per lb. to $7.70 in the U.S.A. and elsewhere from $5.75 to $8.50 by the end of 1973. This reflects the growing awareness in the Western World's industrial economies of the need for additional energy sources by 1980, which becomes more urgent with the current restrictions on Middle East oil supplies. The economics of electricity generated from nuclear power reactors is improving rapidly relative to traditional thermal plants. There are currently 368 nuclear reactors operating, under construction, or ordered and plans for an additional 96 have been announced.

Government policy on the export of uranium is presently indefinite, creating an atmosphere of uncertainty which is affecting uranium exploration in Canada. The present guidelines regarding foreign ownership of new uranium reserves preclude foreign companies from being the main participants in exploration programmes. If there are restrictions on the export of uranium and if the government requires sale of uranium mainly to Canadian consumers at artificially low prices, then there will be no economic justification for uranium exploration by private capital.

Exploration for base metal deposits has been conducted in the vicinity of the Joutel and Normetal mines in Quebec in an effort to extend the life of the operations. Other properties were explored in Newfoundland, New Brunswick, Ontario, Manitoba, British Columbia, the Yukon Territory and the Northwest Territories of Canada, and in various parts of the United States.

Expenditures in exploration activities during the past year were about $1.5 million and a similar budget is planned for 1974.

The cost of finding ore deposits is increasing at a greater pace than the inflation rate. This is because, at least in the accessible areas of Canada, the more obvious deposits have been found. The unfound orebodies can be considered to be more obscure, less definite targets and their discovery will require improved technology and higher capital outlays. Capital costs of developing a mine to production are also increasing at a high rate. Concurrent with this rising requirement of high risk capital is the trend of governments, both federal and provincial, to reduce the return on mining enterprises to that expected from endeavours with substantially less risk. In short, the cost of finding a mine is increasing and the potential reward for finding one is decreasing. The effect of this can be seen in the significant reduction in exploration expenditures in Canada in the past two years.

Mr. William James was elected president in October, replacing Mr. J. H. Stovel, who retired for health reasons. Mr. Stovel played an important role in the development of the Company during the 6 years which he served as president. Prior to joining Kerr Addison, Mr. Stovel had a distinguished career over some 30 years with Noranda Mines Limited.

Kerr Addison has a strong working capital position and a substantial investment portfolio. From this base, the Company will strive to enhance its position in the mineral resource field either through discovery or by acquisition of mines and mineral properties.

The increased earnings of 1973 were not solely attributable to metal prices. The employees of the Company made a significant contribution by providing an efficient operation both in mining and exploration. It is a pleasure to acknowledge their efforts.

On behalf of the Board,

W. S. Row
Chairman

William James
President

February 8, 1974

Toronto, Ontario

General Manager's Report

To: The President and Directors

The following report reviews the operations of the Kerr Addison mine at Virginiatown, Ontario, the Normetal mine at Normetal, Quebec and the mines of Joutel Copper Mines Limited at Joutel, Quebec and the Blue Hill Joint Venture at Blue Hill, Maine. Also reported on are the Icon Sullivan Joint Venture and the Bouzan Joint Venture near Chibougamau, Quebec.

KERR ADDISON MINE

Production

During the year 296,000 tons of ore, or a daily average of 812 tons, were milled at an average grade of 0.44 ounces per ton to produce 127,650 ounces of gold at a value of $13.1 million.

Mine employees total 460 of which 285 are currently working underground. An additional 60 miners could be employed, but an aggressive recruiting programme has failed to obtain them.

Square set mining accounted for 85% of the ore broken with the remainder by cut and fill mining methods. New ore made profitable by the increase in the price of gold and mineable by shrinkage methods was being developed at year-end.

A continuing review of possible areas for new ore in the mine and a reinstatement of low grade material previously removed from ore reserves has resulted in the inclusion of 343,000 tons of ore at an average grade of 0.26 ounces of gold per ton in the ore reserves.

Ore Reserves

Mineable ore reserves, including an allowance for dilution, were estimated as follows:

	Tons	Ounces of Gold Per Ton
Total Ore Reserves at December 31, 1972	1,304,000	0.60
Total Ore Reserves at December 31, 1973	1,351,000	0.54

Since milling commenced in May, 1938, 34,227,000 tons at an average grade of 0.27 ounces per ton have been treated to produce 9,315,700 ounces of gold at a value of $348,756,000.

Normetal Mine

Production

The concentrator treated 297,900 tons of ore averaging 1.38% copper, 4.86% zinc, 0.02 ounces of gold and 1.37 ounces of silver per ton producing 7,499,000 pounds of copper, 3,500 ounces of gold, 238,600 ounces of silver and 24,950,000 pounds of zinc in concentrates. In addition 25,500 tons of pyrite concentrates averaging 50.65% sulphur were produced.

The daily average of 816 tons of ore treated, somewhat less than the 892 tons per day of 1972, was due to the completion of mining in the No. 5 shaft area early in the year resulting in a lesser number of available stopes for mining. Ore broken amounted to 305,400 tons derived 35% from No. 3 shaft, 64% from No. 4 shaft and 1% from No. 5 shaft. Operating costs increased by 9.6% due to labour and material cost escalations.

As a result of increased metal prices and the expertise of those at the property, lower grade material and small remnant tonnages previously not considered profitable were brought into ore reserves.

Ore Reserves

Mineable ore reserves, including an allowance for dilution, were estimated as follows:

		Grade %	
	Tons	Copper	Zinc
Total Ore Reserves at December 31, 1972	271,000	1.6	5.1
Total Ore Reserves at December 31, 1973	186,000	1.32	4.09

From the commencement of milling in September, 1937, ore mined has amounted to 10,811,200 tons from which 237,600 tons of copper, 172,300 ounces of gold, 14,490,000 ounces of silver and 556,900 tons of zinc have been recovered in concentrates. Pyrite concentrate production has amounted to 621,000 tons.

JOUTEL COPPER MINES LIMITED

Production

Production during the year amounted to 151,427 tons of zinc ore averaging 10.32% zinc and 49,495 tons of copper ore averaging 1.93% copper. Metal contained in concentrates was 26,400,000 pounds of zinc and 1,742,000 pounds of copper.

Mine operating costs increased by 10% as a result of higher milling costs for zinc ore and rapidly escalating labour and material costs.

Zinc recovery, while showing improvement to 84.4% in 1973 from 79.2% in 1972, was at year-end still a problem which is under study.

During the year underground diamond drilling for new ore and a revaluation of lower grade material made profitable by escalating metal prices added substantially to the mineable ore reserves which, at December 31, 1973, were estimated at 200,000 tons of zinc ore with an average grade of 7.9% and 74,000 tons of copper ore with an average grade of 2.4%.

Kerr Addison holds a 63% interest in the company.

BLUE HILL JOINT VENTURE

Production

In its first full year of production 230,200 tons of ore averaging 0.63% copper and 10.69% zinc were milled to produce 1,770,000 pounds of copper and 46,060,000 pounds of zinc in separate concentrates.

Milling continued throughout the year on a five day per week basis due to the inability to develop sufficient ore faces in the mine for a greater production rate.

Ore Reserves

Ore reserves based on surface diamond drilling and limited underground development without allowance for extraction were estimated at December 31, 1972 to be 1,568,000 tons of 1.17% copper and 9.95% zinc.

Two fringe areas on the northeast and northwest of the main zinc zone failed to develop as expected from surface diamond drilling with the resultant deletion from in situ ore reserves of 169,000 tons averaging 0.49% copper and 14.1% zinc. A further 89,000 tons averaging 0.88% copper and 10.2% zinc has been deleted from in situ ore reserves as possibly being unmineable due to prohibitive development costs interrupted by fault displacement encountered in recent development and surface diamond drilling.

Mineable ore reserves including an allowance for dilution and based upon the past mining experience to December 31, 1973 were estimated to be 742,000 tons grading 1.70% copper and 5.68% zinc.

During the year 33,590 feet of surface diamond drilling was completed, primarily in an area approximately 2,000 feet south of the shaft. A number of holes have intersected ore grade material, however, sufficient drilling has not been done to allow an ore reserve classification. Drilling is continuing.

Kerr Addison holds a 60% interest in the Joint Venture.

ICON SULLIVAN JOINT VENTURE

During the year 210,500 tons of ore averaging 2.80% copper were treated at the mill of Canadian Merrill Ltd. to produce 11,469,000 pounds of copper in concentrates. The pre-concentrator at the property treated 312,072 tons averaging 1.27% copper, to yield 163,677 tons at an average grade of 2.26% copper.

In situ ore reserves at December 31, 1973, were estimated at 343,000 tons averaging 2.28% copper. The mineable tonnage will depend upon how successfully pillars can be recovered on a retreat basis.

Kerr Addison holds a 21.4% interest in the Venture.

BOUZAN JOINT VENTURE

Production from the property was limited to 13,500 tons averaging 1.82% copper and 0.028 ounces of gold due to the high proportion of development (4500 feet), and a shortage of miners. Mineable ore reserves at December 31, 1973, were estimated to be 192,000 tons averaging 2.04% copper and 0.020 ounces of gold.

Kerr Addison has a 50% interest in the Joint Venture.

The support of the Officers and Directors of the Company is appreciated and special acknowledgement is given to our mine managers, Messrs. R. J. Allen, W. G. Hargrave, P. A. Matthews, W. D. Ogilvie and employees at the mining properties.

Respectfully submitted,

M. D. Rowswell,
General Manager.

January 29, 1974.

Consolidated Statement of Operations

For the year ended December 31, 1973 (with comparative figures for 1972)

	1973	1972 (as restated)
Mine operations:		
Value of production	$32,734,136	$21,694,273
Cost of metal production	17,377,409	14,872,207
	15,356,727	6,822,066
Dividends and interest income on marketable securities, investments in other mining companies and short-term commercial notes	3,876,910	3,036,316
	19,233,637	9,858,382
Deduct:		
Administrative and general expenses	554,281	478,144
Outside exploration expenses	1,559,664	1,583,477
Depreciation and depletion	2,439,526	1,047,309
Income and mining taxes	4,481,640	1,770,820
	9,035,111	4,879,750
Profit before the following	10,198,526	4,978,632
Add (deduct):		
Gain (loss) on sale of investments and fixed assets (net of income taxes 1973 — $11,000; 1972 — $98,000)	(51,103)	923,741
Earnings before minority interest	10,147,423	5,902,373
Minority interest in profit (loss) of subsidiary company	271,327	(45,485)
Net income for the year	$ 9,876,096	$ 5,947,858
Net income per share	$1.04	$0.62

(See accompanying notes to consolidated financial statements)

Kerr Addison Mines Limited

(Incorporated under the laws of Ontario) and its subsidiaries

Consolidated Balance Sheet

December 31, 1973
(with comparative figures at December 31, 1972)

Assets	1973	1972 (as restated)
Current:		
Cash and short-term commercial notes	$ 8,127,731	$ 2,897,997
Marketable securities, at cost (quoted market value 1973 — $17,321,000; 1972 — $13,836,000)	12,354,305	9,539,710
Concentrates, bullion and metals sold, in transit and on hand at estimated net returns under sales contracts	11,090,026	5,974,378
Accounts and interest receivable	769,923	852,462
Supplies and materials, at cost	968,299	874,843
Prepaid expenses	162,447	216,729
Total current assets	33,472,731	20,356,119
Investments:		
Other mining companies (note 2)	30,533,256	30,533,256
Sundry, at cost	1,154,417	1,188,646
	31,687,673	31,721,902
Fixed:		
Property, plant and equipment, at cost	34,784,388	34,302,314
Less accumulated depreciation and depletion	28,315,076	26,263,095
	6,469,312	8,039,219
Other (note 3):		
Agnew Lake property	15,014,550	14,796,683
Deferred exploration expenditures	2,161,837	1,947,922
	17,176,387	16,744,605
	$88,806,103	$76,861,845

(See accompanying notes to consolidated financial statements)

Liabilities	1973	1972 (as restated)
Current:		
Accounts payable and accrued charges	$ 7,479,735	$ 1,766,693
Income and mining taxes payable	2,764,041	1,011,197
Balance of dividends payable		345,000
Total current liabilities	10,243,776	3,122,890
Long-term debt (note 4)	3,630,000	3,420,000
Deferred income taxes	469,200	286,500
Minority interest in subsidiaries	1,105,493	834,166
Shareholders' equity:		
Capital stock (note 5) — Authorized: 12,500,000 shares of no par value Issued: 9,534,949 shares (1972 — 9,534,449 shares)	41,464,490	41,460,422
Earned surplus	31,893,144	27,737,867
	73,357,634	69,198,289
	$88,806,103	$76,861,845

On behalf of the Board:
W. S. ROW, Director
WILLIAM JAMES, Director

Auditors' Report

To the Shareholders of Kerr Addison Mines Limited:

We have examined the consolidated balance sheet of Kerr Addison Mines Limited and its subsidiaries as at December 31, 1973 and the consolidated statements of operations, earned surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of Kerr Addison Mines Limited and its subsidiaries as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the changes in accounting policy described in note 1 to the consolidated financial statements, with which changes we concur.

Toronto, Canada, February 12th, 1974.

Clarkson, Gordon & Co., Chartered Accountants

Consolidated Statement of Earned Surplus

For the year ended December 31, 1973 (with comparative figures for 1972)

	1973	1972
Balance at beginning of year:		
As previously reported	$28,623,277	$27,442,643
Effect of changes in accounting policy (note 1)	(885,410)	(885,410)
As restated	27,737,867	26,557,233
Add net income for the year	9,876,096	5,947,858
	37,613,963	32,505,091
Deduct dividends (60¢ per share in 1973; 50¢ per share in 1972)	5,720,819	4,767,224
Balance at end of year	$31,893,144	$27,737,867

Consolidated Statement of Source and Application of Funds

For the year ended December 31, 1973 (with comparative figures for 1972)

	1973	1972 (as restated)
Source of funds:		
From operations —		
Net income for the year	$ 9,876,096	$ 5,947,858
Depreciation and depletion	2,439,526	1,047,309
Increase in deferred income taxes	182,700	147,000
	12,498,322	7,142,167
Change in minority interest	271,327	(224,683)
Decrease (increase) in sundry investments	34,229	(194,270)
Issue of shares for cash	4,068	
Increase in deferred interest on long-term debt	210,000	210,000
	13,017,946	6,933,214
Application of funds:		
Dividends	5,720,819	4,767,224
Deferred exploration expenditures	213,915	126,894
Increase in property, plant and equipment (net)	869,619	4,818,993
Increase in Agnew Lake property (net)	217,867	22,000
Increase in investment in other mining companies		1,133,861
	7,022,220	10,868,972
Increase (decrease) in working capital	5,995,726	(3,935,758)
Working capital, at beginning of year	17,233,229	21,168,987
Working capital, at end of year	$23,228,955	$17,233,229

(See accompanying notes to consolidated financial statements)

Notes to Consolidated Financial Statements

December 31, 1973

1. **Changes in basis of Consolidation and Statement Presentation**

   In 1973, in accordance with the recommendations of the Canadian Institute of Chartered Accountants, Kerr Addison adopted the policy of consolidating the accounts of all subsidiaries. Prior to 1973, it was the Company's policy to consolidate only the accounts of wholly-owned subsidiaries and to account for partially-owned subsidiaries on the equity basis or on the cost basis if they were non-operating companies.

   These statements accordingly consolidate the accounts of the Company and its wholly-owned subsidiaries, Normetal Mines Limited, Quemont Mines Limited, Keradamex Inc. and Kerramerican Inc., and its partially-owned subsidiaries, Agnew Lake Mines Limited (80% owned), Joutel Copper Mines Limited (63.3% owned), and Vangorda Mines Limited (69% owned).

   In 1973, the Company also adopted the same method of presentation for the Icon Sullivan joint venture (which was carried on the equity basis in 1972) as that followed for the Blue Hill joint venture, namely to include in the consolidated accounts the Company's proportionate share of the assets, liabilities, revenue and expenses relating thereto.

   These changes in accounting policy have been given retroactive effect and the 1972 comparative figures have been restated on the new basis. The changes had no effect on the amount of net income reported for 1973 and 1972. The balance of earned surplus at the beginning of 1972 reflects a retroactive charge of $885,410 (net of income taxes of $885,410) representing the cumulative adjustment required in respect of years prior to 1972, when interest received by the Company on Agnew Lake's outstanding debentures was reflected in the Company's net income but deferred in the accounts of the subsidiary.

   The accounts of the United States subsidiaries have been translated into Canadian dollars at current rates of exchange except for non-current assets which have been translated at historical rates.

2. **Investments in Other Mining Companies**

   These investments represent shares of other mining companies which are being held on a relatively long-term basis. Such investments, which are carried at cost of $30,533,256, had a quoted market value on December 31, 1973 of approximately $93,945,000 (computed by pricing the individual holdings at the closing market quotations on that date). Included in this category are 1,600,000 shares of Noranda Mines Limited, carried at a cost of $21,727,200, which had a quoted market value of $80,400,000 on December 31, 1973. The market values of these investments do not necessarily represent the value of these holdings, which may be more or less than indicated by market quotations.

3. **Other Assets**

   (a) Agnew Lake Property

   Development of the Agnew Lake property has been suspended because of prevailing low prices in the world uranium market. The Company is confident that future demands for uranium resulting from increased requirements for nuclear power generation will permit the Agnew Lake property to operate profitably and plans to resume development when uranium sales contracts have been arranged at favourable prices. In the meantime, the property is being held on a care and maintenance basis. Costs incurred to date include $5,476,168 for expenditures on property, plant and equipment and $9,538,382 for exploration, development and other expenditures which have been deferred.

   (b) Deferred exploration expenditures

   Deferred exploration expenditures include amounts aggregating $588,000 expended on uranium properties adjacent to Agnew Lake. As in the case of the Agnew Lake property, further development of these claims has been suspended.

4. **Long-term Debt**

   Long-term debt represents the minority interests' share of Agnew Lake Mines Limited 7% debentures due December 31, 1982 plus accrued interest of $630,000 in 1973 and $420,000 in 1972. Payment of interest accruing on these debentures has been deferred for six years from January 1, 1971.

5. **Capital Stock**

   During the year 500 shares were issued under the Company's stock option plan for $4,068 cash. Employees' options were outstanding at December 31, 1973 covering a total of 16,500 shares, of which 11,000 shares are exercisable at a price of $13.30 per share up to July 23, 1979 and the balance of 5,500 shares are exercisable at a price of $8.14 per share up to July 21, 1981.

6. **Fernandez Joint Venture**

   The Company has negotiated an agreement under which it would transfer its interest in certain properties containing the major part of its uranium reserves in the Fernandez joint venture to another party in exchange for a royalty agreement which contains provision for an initial advance royalty payment. Certain conditions of the agreement have not yet been resolved, as a result of which the amount of royalty payment and the costs assignable thereto are not determinable at the date of this report. Accordingly, no portion of the gain on the transaction (which is estimated not to exceed $3.0 million, net) has been reflected in the 1973 accounts. A deposit covering the maximum amount of the advance royalty that the Company might be entitled to was received in 1973 and is included in accounts payable and accrued charges.

7. **Remuneration of Directors and Senior Officers**

   Total direct remuneration paid by the Company and its subsidiaries to directors and to senior officers during the year ended December 31, 1973 amounted to $249,500 ($233,100 in 1972).

Printed in Canad

AR10

At a recent meeting of the Directors a dividend of ten cents per share was declared payable September 20, 1973, to shareholders of record August 31, 1973.

The increase in earnings for the first half of 1973 to 43 cents per share compared to 28 cents per share in the first half of last year is entirely due to increases in metal prices. The average price received for gold sales in the first half of this year was $90.30 U.S. per ounce compared to $52.80 U.S. per ounce in the first half of last year, and the price for zinc was approximately two and a half cents per pound higher compared to the same period last year.

Production at the Kerr Addison mine and Normetal mine was curtailed somewhat due to lack of manpower. Production at the Blue Hill Joint Venture was unchanged from the first quarter.

The increase in the price of gold necessitates a revaluation of erratic intersections in the carbonate zones north of the main orebodies at the Kerr Addison mine. A great deal of development work is required before these zones can be properly assessed.

Evaluation of gold properties is being emphasized as well as the continuing exploration programme for base metals and uranium.

Printed in Canada.

KERR ADDISON MINES LIMITED

Interim Report for the six months ended June 30, 1973

KERR ADDISON MINES LIMITED

CONSOLIDATED FINANCIAL SUMMARY
FOR THE SIX MONTHS ENDED JUNE 30, 1973
(UNAUDITED)

STATEMENT OF OPERATIONS	First Half 1973	First Half 1972
Revenue from metal production	$12,810,000	$ 8,935,000
Investment income	1,603,000	1,504,000
Share of Joutel and Icon profits	287,000	198,000
	14,700,000	10,637,000
Operating costs	7,387,000	6,329,000
Exploration	773,000	724,000
Depreciation and depletion	553,000	86,000
	8,713,000	7,139,000
Profit before taxes	5,987,000	3,498,000
Provision for taxes	1,782,000	986,000
Profit before the following:	4,205,000	2,512,000
(Loss) Profit on sale of investments and fixed assets (net of income taxes)	(75,000)	197,000
Net profit	$ 4,130,000	$ 2,709,000
Net profit per share	43.3¢	28.4¢

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

		1973	1972
Source:	Net profit from operations	$ 4,130,000	$ 2,709,000
	Depreciation and depletion	553,000	86,000
	Deferred income taxes	28,000	219,000
		4,711,000	3,014,000
Application:	Dividends	1,907,000	1,907,000
	Expenditures on Blue Hill project	—	2,587,000
	Deferred exploration expenditures	100,000	122,000
	Property, plant and equipment	227,000	217,000
	Investments and advances	118,000	124,000
		2,352,000	4,957,000
Increase (decrease) in Working Capital		$ 2,359,000	$(1,943,000)